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**BEFORE THE TENNESSEE REGULATORY AUTHORITY**

**NASHVILLE, TENNESSEE**

**December 4, 2002**

TN REGULATORY AUTHORITY  
DOCKET ROOM

**IN RE:**

**COUNCE NATURAL GAS COMPANY**

**ACTUAL COST ADJUSTMENT (ACA) AUDIT**

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**Docket No. 02-01182**

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**NOTICE OF FILING BY ENERGY AND WATER DIVISION OF THE TENNESSEE  
REGULATORY AUTHORITY**

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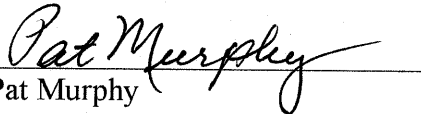
Pursuant to Tenn. Code Ann. §§65-4-104, 65-4-111 and 65-3-108, the Energy and Water Division of the Tennessee Regulatory Authority gives notice of its filing of the Counce Natural Gas Company's ACA Audit Report in this docket and would respectfully state as follows:

1. The present docket was opened by the Authority to hear matters arising out of the audit of Counce Natural Gas Company (the "Company").
2. The Company's ACA filing was received on October 29, 2002, and the Staff completed its audit of same on November 21, 2002.
3. On November 21, 2002, the Energy and Water Division issued its preliminary ACA audit findings to the Company, and on November 22, 2002, the Company responded thereto.
4. The preliminary ACA audit report was modified to reflect the Company's responses and a final ACA audit report (the "Report") resulted therefrom. The Report is

attached hereto as Exhibit A and is fully incorporated herein by this reference. The Report contains the audit findings of the Energy and Water Division, the Company's responses thereto and the recommendations of the Energy and Water Division in connection therewith.

5. The Energy and Water Division hereby files its Report with the Tennessee Regulatory Authority for deposit as a public record and approval of the recommendations and findings contained therein.

Respectfully Submitted:

  
Pat Murphy  
Energy and Water Division of the  
Tennessee Regulatory Authority

**CERTIFICATE OF SERVICE**

I hereby certify that on this 4<sup>th</sup> day of December, 2002, a true and exact copy of the foregoing has been either hand-delivered or delivered via U.S. Mail, postage pre-paid, to the following persons:

Sara Kyle  
Chairman  
Tennessee Regulatory Authority  
460 James Robertson Parkway  
Nashville, TN 37243

Mr. Mike Horton, President  
Counce Natural Gas Company  
P.O. Box 285  
Burnsville, MS 38833

  
Pat Murphy

**EXHIBIT A**

**COMPLIANCE AUDIT REPORT**

**OF**

**COUNCE NATURAL GAS COMPANY**

**ACTUAL COST ADJUSTMENT**

**DOCKET #02-01182**

**PREPARED BY THE**

**TENNESSEE REGULATORY AUTHORITY**

**ENERGY AND WATER DIVISION**

**December 2002**

**COMPLIANCE AUDIT**  
**COUNCE NATURAL GAS COMPANY**  
**ACTUAL COST ADJUSTMENT**  
**DOCKET #02-01182**

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**I. JURISDICTION AND POWER OF THE TENNESSEE REGULATORY AUTHORITY**

Tennessee Code Annotated (T.C.A.) §65-4-104 gave jurisdiction and control over public utilities to the Tennessee Public Service Commission. By virtue of Chapter 305 of the Public Acts of 1995, jurisdiction and control over public utilities were transferred from the Tennessee Public Service Commission (TPSC or Commission) to the Tennessee Regulatory Authority (the "TRA" or "Authority") on July 01, 1996. T.C.A. §65-4-104 states that:

The Authority shall have general supervision and regulation of, jurisdiction, and control over, all public utilities...

T.C.A. §65-4-111 gives the TRA the power to require public utilities to maintain a Uniform System of Accounts. T.C.A. §65-4-111 states that:

The Authority shall have the power after hearing, upon notice, by order in writing to require every public utility... to keep its books, records, and accounts so as to afford an intelligent understanding of the conduct of its business, and to that end to require every public utility of the same class to adopt a uniform system of accounting. Such system shall conform, where applicable, to any system adopted or approved by the Interstate Commerce Commission of the United States. And to furnish annually, or at other times as the authority may require, a detailed report of finances and operations as shown by said system of accounts.

The TRA responded to T.C.A. §65-4-111 by establishing Rule 1220-4-1-1.11 regarding the uniform system of accounts which public utilities should maintain. The TRA's rule provides that all utilities follow the Uniform System of Accounts as adopted and amended by the National Association of Regulatory Utility Commissioners (NARUC).

The TRA received its authority to examine the books and records of public utilities from T.C.A. §65-3-108, which states that the TRA shall possess:

...full power to examine the books and papers of the companies, and to examine, under oath, the officers, agents, and employees of the companies and any other persons, to procure the necessary information to intelligently and justly discharge its duties and carry out the provisions of this chapter and chapter 5 of this title.

## **II. PURPOSE OF COMPLIANCE AUDITS**

The two basic reasons for compliance audits are to assure compliance with the Uniform System of Accounts (USOA) and to assure that the utility is following all rules, regulations and directives adopted by the TRA.

Compliance audits provide the foundation of assurance underlying the basic objective of regulatory accounting, which is to provide a uniform method of recording transactions among similar companies. This uniform record keeping is accomplished through the adoption of the USOA and insures the integrity, reliability, and comparability of the financial data contained in financial reports filed with the TRA which provides the TRA one of its most useful regulatory tools for establishing just and reasonable rates.

## **III. DESCRIPTION OF PURCHASED GAS ADJUSTMENT (PGA) RULE**

The Tennessee Regulatory Authority issued an Order in Docket No. G-86-1, which adopted a new PGA rule beginning July 1, 1992. The PGA Rider is intended to permit the Company to recover, in a timely fashion, the total cost of gas purchased for delivery to its customers and to assure that the Company does not over-collect or under-collect gas costs from its customers. This PGA consists of three major components:

- 1) The Actual Cost Adjustment (ACA)
- 2) The Gas Charge Adjustment (GCA)
- 3) The Refund Adjustment (RA)

The ACA is the difference between the revenues billed customers by means of the GCA and the cost of gas invoiced the Company by suppliers plus margin loss (if allowed by order of the TRA in another docket) as reflected in the Deferred Gas Cost account. The ACA then "true-up" the difference between the actual gas costs and the gas costs recovered from the customer through a surcharge or a refund. The RA refunds the "true-up" along with other supplier refunds.

## **IV. AUDIT TEAM**

The TRA's Energy and Water Division is responsible for conducting compliance audits of gas, water, and electric utilities. Pat Murphy, of the Energy and Water Division, conducted this audit.

## **V. OBJECTIVE AND SCOPE OF AUDIT**

The order for Docket G-86-1 required that the Company

each year...shall file with the Authority an annual report reflecting the transactions in the Deferred Gas Cost Account. Unless the Authority provides written notification to the Company within one hundred eighty (180) days from the date of filing the report, the Deferred Gas Cost Adjustment Account shall be deemed in compliance with the provisions of this Rule...

The objective of this audit was to determine that Purchased Gas Adjustments, which are encompassed by the ACA and were described above, approved by the TRA during the period from October 1, 2001 to September 30, 2002, had been calculated correctly and were supported by appropriate source documentation. To accomplish this task, the Staff conducted in-house audit work during which the Company's gas supplier invoices were examined and calculations of gas costs recovered were made.

The Staff also audited a sample of customer bills to determine if the proper PGA rates were being applied in the Company's calculation of the customers' bills. These bills were selected to be representative of the residential, commercial and industrial customers. The sample was selected from all twelve months of the audit period.

The Staff's last ACA audit of Counce Natural Gas was conducted in 2002 and covered the period October 1, 2000 through September 30, 2001.

## **VI. COMPANY BACKGROUND**

Counce Natural Gas Company (Counce), with its headquarters in Burnsville, MS, is a wholly owned subsidiary of Tumlinson Engineering, Inc., and was formed in 1995 for the purpose of acquiring the operating authority of Hardin County Gas Company and providing natural gas service to customers in Hardin County, Tennessee. Hardin County Gas Company's certificate of convenience and necessity (CCN) was transferred to Counce on December 22, 1995, per Docket #95-03379. In October 2000, ownership of Tumlinson Engineering, Inc. was transferred from Ted Tumlinson to Mike Horton.

The natural gas used to serve this area is purchased from Enbridge Marketing (U.S.), Inc. The gas purchases are made in accordance with separate and individual tariffs approved by the Federal Energy Regulatory Commission, while the gas transported is purchased under contract or on the spot market.



## VII. ACA FINDINGS

The Company submitted its ACA filing on October 29, 2002, covering the period October 1, 2001 to September 30, 2002. The filing reflected gas costs during the period of \$118,048 with \$117,449 being recovered from the ratepayers through rates. Under-collected gas costs during the period, including interest, was \$600. Adding a beginning balance of -\$12,616 in over-collected gas costs from the last ACA audit resulted in an ending balance of -\$12,017 in over-collected gas costs due to the Company's customers. The Staff's audit results show -\$3,829 in over-collected gas costs (including interest) during the period. Adding the beginning balance of -\$12,616 produces an **ending balance at September 30, 2002 of -\$16,445 in over-collected gas costs** due to the Company's customers. The difference between the Company's filing and the Staff's results is -\$4,428 in over-collected gas costs. A summary of the ACA account as filed by the Company and as adjusted by the Staff is shown below, followed by a detail of each finding.

### SUMMARY OF THE ACA ACCOUNT:

	<u>Company</u>	<u>Staff</u>	<u>Difference (Findings)</u>
Beginning Balance at 10/01/01	\$ -12,616.41	\$ -12,616.41	\$ 0
Plus Gas Costs	118,048.00	118,048.00	0
Minus Gas Cost Recoveries	119,476.00	123,011.49	3,535.49
Minus ACA Refunds	<u>-2,026.76</u>	<u>-2,026.76</u>	<u>0</u>
Ending Balance before Interest	\$ -12,017.65	\$ -15,553.14	\$ -3,535.49
Plus Interest	<u>0.57</u>	<u>-892.36</u>	<u>-892.93</u>
Ending Balance at 9/30/02	<u>\$ -12,017.08</u>	<u>\$ -16,445.50</u>	<u>\$ -4,428.42</u>

### SUMMARY OF FINDINGS:

FINDING #1	Gas Cost Recovery	\$3,535.49	Over-collection
FINDING #2	Interest Calculation	<u>892.93</u>	Over-collection
	<b>NET RESULT</b>	<b><u>\$4,428.42</u></b>	<b>Over-collection</b>

## **FINDING #1**

### **Exception**

*The Company incorrectly calculated its gas cost recoveries for the period. Total gas cost recoveries were **understated by \$3,535.49**.*

### **Discussion**

The Company reported a PGA recovery factor of \$5.95 for the months of October, November, and December 2001. This factor was not effective until the Company's PGA filing in January 2002. The correct PGA factor for those three (3) months was \$6.6196. An audit of the customer bills showed that the correct factor was billed.

### **Company Response**

The Company agrees with this finding.

## **FINDING #2**

### **Exception**

*Interest on account was overstated by \$892.93.*

### **Discussion**

In the Company filing, interest rates were misstated for the first nine (9) months of the audit period. Also, the Company did not correctly compute interest. An error in its formulas led to a material misstatement of interest.

We recalculated the interest due to the customers based on Finding #1 and the combination of errors detailed above.

### **Company Response**

The Company agrees with this finding.

## **VIII. CONCLUSIONS AND RECOMMENDATIONS**

We conclude that except for the Findings noted, the ACA process as provided for in the Purchased Gas Adjustment Rule is working properly and in accordance with Authority Rules for Counce Natural Gas Company. Finding #1 was a reporting error and Finding #2 was a calculation error. The PGA process itself was not affected and the customers are being billed the correct amounts.

The corrected balance in the ACA account as of September 30, 2002 is **-\$16,445.50 in over-collected gas costs**. Our calculation of this balance is shown in **Attachment 1**. This balance is the sum of **-\$2,936.73** in over-collected gas costs for the period, **-\$892.36** in interest due to customers and **-\$12,616.41** in the over-collected beginning balance at October 1, 2001. Spreading the **-\$16,445.50** balance over the 12 month-to-date September 2002 sales of 20,080 MCF produces an **ACA adjustment factor of -\$0.8190 per MCF**. Therefore, Counce Natural Gas's **new billing rate is \$7.2614 per MCF**. It is composed of \$2.1304 base rate plus the approved \$5.95 purchased gas adjustment plus the current **-\$0.8190 ACA adjustment**.

The audit was completed during November, prior to the Company's November billing schedule. Due to the magnitude of the over-collection, the Company is anxious to begin refunding the customers as soon as possible. Therefore, even though the audit report was not issued in advance of the November billing, the Staff agrees that the Company should begin billing its new rate with the November 2002 billing.

# Attachment 1

## Counce Natural Gas Corporation

### Calculation of the ACA factor

<u>Line No.</u>	<b>Factor to be applied to residential, commercial and industrial customers:</b>	
1	Invoiced Gas Costs (10/1/01 - 9/30/02)	118,048.00
2	Gas Cost Recovered (10/1/01 - 9/30/02)	<u>123,011.49</u>
3	Under/(Over) Recovery (line 1 minus line 2)	(4,963.49)
4	Interest on Average Monthly Balances	(892.36)
5	ACA Surcharges/(Refunds) (10/1/01 - 9/30/02)	(2,026.76)
6	Beginning Balance at 9/30/01	<u>(12,616.41)</u>
7	<b>ACA BALANCE INCLUDING INTEREST at 9/30/02 (line 3 + line 4 - line 5 + line 6)</b>	<u><b>(16,445.50)</b></u> <b>Over-Recovery</b>
8	Sales Volumes (Actual MCF for 12 month ended 9/30/02)	20,080
9	ACA Factor per MCF (line 7 divided by line 8)	<u><u><b>(0.8190)</b></u></u>